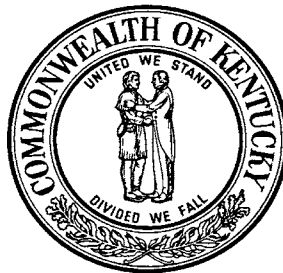


**REPORT OF THE AUDIT OF THE  
EDMONSON COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**June 24, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
**[www.kyauditor.net](http://www.kyauditor.net)**

**144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
EDMONSON COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**June 24, 2002**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Edmonson County Sheriff as of June 24, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$2,200,529 for the districts for 2001 taxes, retaining commissions of \$87,807 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,113,444 to the districts for 2001 Taxes. Taxes of \$2,244 are due to the districts from the Sheriff and refunds of \$6,383 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$283,235 To Protect Deposits



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable N. E. Reed, Edmonson County Judge/Executive

Honorable Billy Joe Honeycutt, Edmonson County Sheriff

Members of the Edmonson County Fiscal Court

Independent Auditor's Report

We have audited the Edmonson County Sheriff's Settlement - 2001 Taxes as of June 24, 2002. This tax settlement is the responsibility of the Edmonson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Edmonson County Sheriff's taxes charged, credited, and paid as of June 24, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable N. E. Reed, Edmonson County Judge/Executive  
Honorable Billy Joe Honeycutt, Edmonson County Sheriff  
Members of the Edmonson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$283,235 To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 27, 2003



EDMONSON COUNTY  
BILLY JOE HONEYCUTT, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES

June 24, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 308,994	\$ 269,250	\$ 1,077,225	\$ 385,533
Tangible Personal Property	7,617	7,641	16,926	14,833
Intangible Personal Property				3,591
Fire Protection Taxes	1,242			
Franchise Corporation Taxes	42,207	36,471	98,664	
Additional Billings	160	136	511	168
Oil and Gas Property Taxes	1,412	1,140	4,924	1,762
Penalties	3,464	2,898	11,989	4,306
Adjusted to Sheriff's Receipt	(1,407)	(1,132)	(5,600)	(2,008)
Gross Chargeable to Sheriff	<u>\$ 363,689</u>	<u>\$ 316,404</u>	<u>\$ 1,204,639</u>	<u>\$ 408,185</u>
<u>Credits</u>				
Exonerations	\$ 1,076	\$ 939	\$ 3,753	\$ 1,343
Discounts	3,871	3,445	13,294	4,920
Delinquents:				
Real Estate	8,347	7,302	30,278	10,836
Tangible Personal Property	335	431	744	723
Uncollected Franchise Corporation Taxes	17	21	38	
Uncollected Oil and Gas Property Taxes	103	83	360	129
Total Credits	<u>\$ 13,749</u>	<u>\$ 12,221</u>	<u>\$ 48,467</u>	<u>\$ 17,951</u>
Taxes Collected	\$ 349,940	\$ 304,183	\$ 1,156,172	\$ 390,234
Less: Commissions *	<u>15,160</u>	<u>12,419</u>	<u>43,356</u>	<u>16,872</u>
Taxes Due	\$ 334,780	\$ 291,764	\$ 1,112,816	\$ 373,362
Taxes Paid	332,637	297,508	1,111,069	372,230
Refunds (Current and Prior Year)	<u>474</u>	<u>564</u>	<u>1,740</u>	<u>639</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 1,669</u>	<u>\$ (6,308)</u>	<u>\$ 7</u>	<u>\$ 493</u>

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY  
 BILLY JOE HONEYCUTT, COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2001 TAXES  
 June 24, 2002  
 (Continued)

\* Commissions:

10% on	\$	10,000
3.75% on	\$	1,156,172
4.25% on	\$	830,889
4% on	\$	203,468

\*\* Special Taxing Districts:

Library District	\$	68
Ambulance		(6,096)
Big Reedy		7
Brownsville		(287)
		<hr/>

Due Districts or Refunds Due Sheriff	\$	<u>(6,308)</u>
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The accompanying notes are an integral part of the financial statement.

EDMONSON COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 24, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 16, 2001 the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$283,235 of public funds uninsured and unsecured.

EDMONSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 24, 2002  
(Continued)

Note 2. Deposits (Continued)

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by the county official's agent in the county official's name	877,578
Uncollateralized and uninsured	<u>283,235</u>
Total	<u><u>\$ 1,260,813</u></u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2001, through April 30, 2002.

Note 4. Interest Income

The Edmonson County Sheriff earned \$2,225 as interest income on 2001 taxes. The Sheriff distributed \$617 to the school district and distributed \$13 to the Sheriff's fee account. As of March 27, 2003, the Sheriff owes \$501 in interest to the school district and \$1,094 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Edmonson County Sheriff collected \$17,061 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of March 27, 2003, the Sheriff is due \$10,420 from his fee account for overpayment.

Note 6. Advertising Costs And Fees

The Edmonson County Sheriff collected \$662 of advertising costs and \$2,980 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

## COMMENTS AND RECOMMENDATIONS



EDMONSON COUNTY  
BILLY JOE HONEYCUTT, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

June 24, 2002

1) The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly “ that part of his investment earnings for the month which is attributable to the investment of school taxes.” The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff’s fee account. During 2001 tax collections, Sheriff Honeycutt earned interest of \$2,225 on his tax account. However, Sheriff Honeycutt did not pay the interest to the Board of Education or the fee account on a monthly basis. As of March 27, 2003, Sheriff Honeycutt owed the Edmonson County Board of Education \$501 and the fee account \$1,094. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

*Sheriff’s Response:*

*I was unaware we had to do this on a monthly basis, we had been doing it on a one time basis.*

2) The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$283,235 To Protect Deposits

On November 16, 2001 \$283,235 of the Sheriff’s deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff’s Response:*

*I do concur, but we had notified the bank to take care of this and they stated they would take care of it. However, they monitored the end of the month but this happened in the middle of the month. Procedures are now in place to monitor daily balances.*

PRIOR YEAR COMMENTS AND RECOMMENDATIONS:

The following prior year comments were not corrected and are discussed above.

- Sheriff Shall Pay Board Of Education Proper Share Of Interest Earned On Investment Of School Taxes
- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Securities Of \$234,794 And Enter Into A Written Agreement To Protect Deposits

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

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Honorable Billy Joe Honeycutt, Edmonson County Sheriff  
Members of the Edmonson County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Edmonson County Sheriff's Settlement - 2001 Taxes as of June 24, 2002, and have issued our report thereon dated March 27, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Edmonson County Sheriff's Settlement - 2001 Taxes as of June 24, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$283,235 To Protect Deposits



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Edmonson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 27, 2003

